

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

\* \* \* \* \*

In the Matter of:

|                                |   |               |
|--------------------------------|---|---------------|
| THE APPLICATION OF EVERGREEN   | ) |               |
| SEWAGE DISPOSAL SYSTEM, INC.,  | ) |               |
| FOR A RATE ADJUSTMENT PURSUANT | ) | CASE NO. 9514 |
| TO THE ALTERNATIVE RATE FILING | ) |               |
| PROCEDURE FOR SMALL UTILITIES  | ) |               |

O R D E R

IT IS ORDERED that:

1. The Staff Audit Report for Evergreen Sewage Disposal System, Inc., ("Evergreen") attached hereto as Appendix A shall be included as a part of the record in this proceeding.
2. Evergreen shall have until the close of business within 2 weeks of the date of this Order to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 10th day of April, 1986.

PUBLIC SERVICE COMMISSION

*Richard D. Hemmelf*  
Chairman

*Richard D. Hemmelf*  
Vice Chairman

*James M. Williams*  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

APPENDIX A  
REPORT ON LIMITED AUDIT  
OF  
EVERGREEN SEWAGE DISPOSAL SYSTEM, INC.

PREFACE

On February 13, 1986, Evergreen Sewage Disposal System, Inc., ("Evergreen") filed an application with the Commission to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rate would produce an additional \$2,052 annually, an increase of 34 percent over test period revenues. In order to expedite the processing of ARF cases, the Commission chose to perform a limited scope audit of Evergreen's financial records and financial statements for the test period in this case. The limited scope audit was performed by Mr. Tom Wells of the Division of Rates and Tariffs on March 20, 1986, at the home of Ms. Clarice Howard, the bookkeeper for Evergreen.

SCOPE

The scope of this audit was limited to ascertaining whether the operating expenses and revenues and balance sheet accounts as reported in the 1985 Annual Report, the test period, were recorded according to the Uniform System of Accounts for Sewer Systems and were representative of normal operations. Based upon a review of Evergreen's past two rate cases (the applications, the interrogatories and responses, final orders) and based upon an analysis of 1983, 1984, and 1985 Annual Reports and the application in this

case, certain balance sheet and income statement accounts were selected for audit. These accounts were:

1. Utility Plant - Account Nos. 101-109; additions since 1980.
2. Notes Payable - Account No. 231.
3. Residential Revenues - Account No. 521.1.
4. Fuel and Power Purchased for Pumping and Treatment - Account No. 703.
5. Other Interest Expense - Account No. 431.

#### FINDINGS

The only exception discovered was in the classification of a plant-in-service item. In 1982, Evergreen expended \$1,738 to Brock-McVey Company of Frankfort, invoice no. F-322721, to rebuild certain pumping equipment. The expenditure was erroneously capitalized as Treatment and Disposal Plant, Sub-Account No. 373, and not capitalized to Pumping Equipment-Electric - Account No. 363A. As Treatment and Disposal Plant is depreciated over 25 years and electrical pumping equipment is depreciated over 5 years, additional depreciation in the amount of \$278 should be recognized for the test period. Accordingly, additional Accumulated Provision for Depreciation and Amortization should be recognized in the amount of \$1,392 with a corresponding debit to Unappropriated Retained Earnings - Account No. 215 in the amount of \$1,114. The journal entry to adjust Evergreen's books for this error is as follows:


| <u>Account</u>                                           | <u>Account<br/>No.</u> | <u>Amount</u> | <u>Debit/<br/>Credit</u> |
|----------------------------------------------------------|------------------------|---------------|--------------------------|
| Pumping Equipment-Electrical                             | 363A                   | \$1,738       | Debit                    |
| Unappropriated Retained Earnings                         | 215                    | 1,114         | Debit                    |
| Depreciation Expense                                     | 403                    | 278           | Debit                    |
| Treatment and Disposal Plant                             | 373                    | 1,738         | Credit                   |
| Accumulated Provision for<br>Depreciation & Amortization | 110                    | 1,392         | Credit                   |

### CONCLUSION

Evergreen's books of account reflected no major accounting exceptions during 1985. Therefore, the operating statement to be used for Evergreen in this proceeding is as follows:

| <u>Account</u>                     | <u>Account<br/>No.</u> | <u>Amount</u>                 |
|------------------------------------|------------------------|-------------------------------|
| <u>Operating Revenues:</u>         |                        |                               |
| Total Operating Revenues           |                        | \$ 6,000                      |
| <u>Operating Expenses:</u>         |                        |                               |
| Supervision & Engineering          | 700                    | 1,200                         |
| Labor & Expenses                   | 701                    | 1,073                         |
| Fuel & Power Purchased for Pumping | 703                    | 1,125                         |
| Chemicals                          | 704                    | 100                           |
| Administrative & General Salaries  | 920                    | 850                           |
| Office Supplies & Other Expenses   | 921                    | 118                           |
| Miscellaneous General Expenses     | 930                    | 231                           |
| Depreciation Expense               | 403                    | 3,874                         |
| Taxes Other Than Income Taxes      | 408.1                  | <u>348</u>                    |
| Net Operating Expenses             |                        | \$ 8,919                      |
| Operating Income                   |                        | <2,919>                       |
| <u>Other Deductions:</u>           |                        |                               |
| Other Interest Expense             | 431                    | <u>&lt;329&gt;</u>            |
| NET INCOME                         |                        | <u><u>\$&lt;3,248&gt;</u></u> |

Respectfully Submitted,

  
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Tom Wells, Senior Public  
Utilities Financial Analyst  
PUBLIC SERVICE COMMISSION  
Rates and Tariffs Division  
Revenue Requirements Section